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E.O. 12958: N/A
TAGS: ENRG ECON EMIN SENV PGOV TRGY CH
SUBJECT: Fuel Shortage in Southern China Leads to Fuel Hording and Price Gouging

REF: BEIJING 6936

¶1. (SBU) Summary. China's fuel shortage is hitting the Pearl River Delta hard. High international oil prices have driven wholesale prices above government-mandated retail price caps. The November 1 increase in diesel and gasoline prices (9 percent) may not be enough to restore margins for retailers or refiners. Gas stations have been closing, refusing in particular to sell diesel, and in some cases illegally charging higher prices. End Summary.

¶2. (U) In line with nationwide trends (reftel), south China is experiencing a diesel and gasoline shortage. Long lines are forming at many gas stations, and local media coverage is increasing daily. The shortage has been caused by rising international oil prices, which have made it unprofitable for refiners and retailers to sell fuel to consumers at government-capped pump prices (reftel). In fact, on a recent Habitat for Humanity Build four hours outside Guangzhou, consulate officers had difficulty locating a gas station willing to sell them diesel fuel for the return trip to the city. They told us that their strategy was to force consumers to complain to the State Council about the lack of diesel, thereby driving the State Council to undertake corrective action.

¶3. (SBU) Until October 31, China's National Development and Reform Commission (NDRC) capped the retail price of diesel fuel at RMB 4.68 per liter. However, wholesale diesel prices in Guangdong have been allowed to fluctuate more widely, possibly due to lax enforcement at the local level of central government controls. Wholesale prices in Guangdong rose higher than the retail cap. The price in the Guangdong wholesale market reached RMB 5,770 per ton -- approximately RMB 4.9 per liter -- last week. It is still unclear whether the price increase announced October 31 will be enough to restore margins for retailers and alleviate the shortage. Complicating the situation further is the apparent unwillingness of independent refiners, who account for 12-19 percent of diesel and gasoline production, to re-enter the market at the new price level.

¶4. (SBU) Predictably, many gas stations have responded to the price situation by reducing supply or merely hoarding it. Media reports indicate that 2,000 gas stations in south China have ceased operations, including several hundred stations in Guangdong Province. Some stations have turned customers away in an effort to conserve existing supplies; November 2 media coverage indicated that

in Shenzhen, for example, service stations are holding back sales of popular 93 octane gasoline. State-owned gas stations are still supplying diesel fuel and there is some thought that they see the crisis as an opportunity to expand their monopolies and drive the independents out of business. However, not all of the "Sinopec" and "Petrochina" branded stations are wholly owned by the state-owned enterprises. Gas station co-owners in these joint ventures have been forced to shoulder part of their losses.

¶5. (SBU) Prior to the October 31 announcement, some privately-owned fuel stations had already begun increasing retail prices, flaunting government price caps. Media reports indicated that some stations had been selling diesel for RMB 5.15 to 5.50 per liter. These prices are already as high as or higher than the new price caps announced October 31.

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